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The Large-Cap Frenzy: Return of the FII, Or a Short Squeeze?

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The Large-Cap Frenzy: Return of the FII, or a Short Squeeze?

In ten sessions the Nifty 50 added 9.1%, and foreign investors bought more Indian shares than in any month since September 2024. The question is what kind of foreign money this is: the squeeze lit the fuse, but the larger flow is rotation money escaping an AI sell-off and a crude collapse, and it has not yet become a commitment.

Between 30 October and 13 November, the Nifty 50 rose 2,091 points, or 9.1%, to close at 25,144, and on 11 November it touched 25,424 intraday, a level last seen on 27 February. Nifty Bank rose 11.6%. The buyer was not hard to find. On provisional exchange data, foreign institutional investors (FIIs) bought a net ₹79,303 crore of shares between 2 and 13 November, after selling ₹45,162 crore in October; their ₹14,975 crore on 5 November was the largest single day of buying in more than a year.

However, the derivatives market tells a second story. FIIs entered October with an extremely bearish book in index futures: on 1 October they held just 0.09 long contracts for every short. By 13 November they had bought back more than half of those shorts.

Our reading is that both stories are true, in sequence: a short squeeze lit the fuse, and rotation money fleeing an AI sell-off and a crude collapse supplied the fuel. What has not yet arrived is the third kind of foreign money, the strategic kind that rebuilds an underweight. This note separates the three, looks at how rotation money behaved the last time it came, and sets out what would turn a rented rally into an owned one.

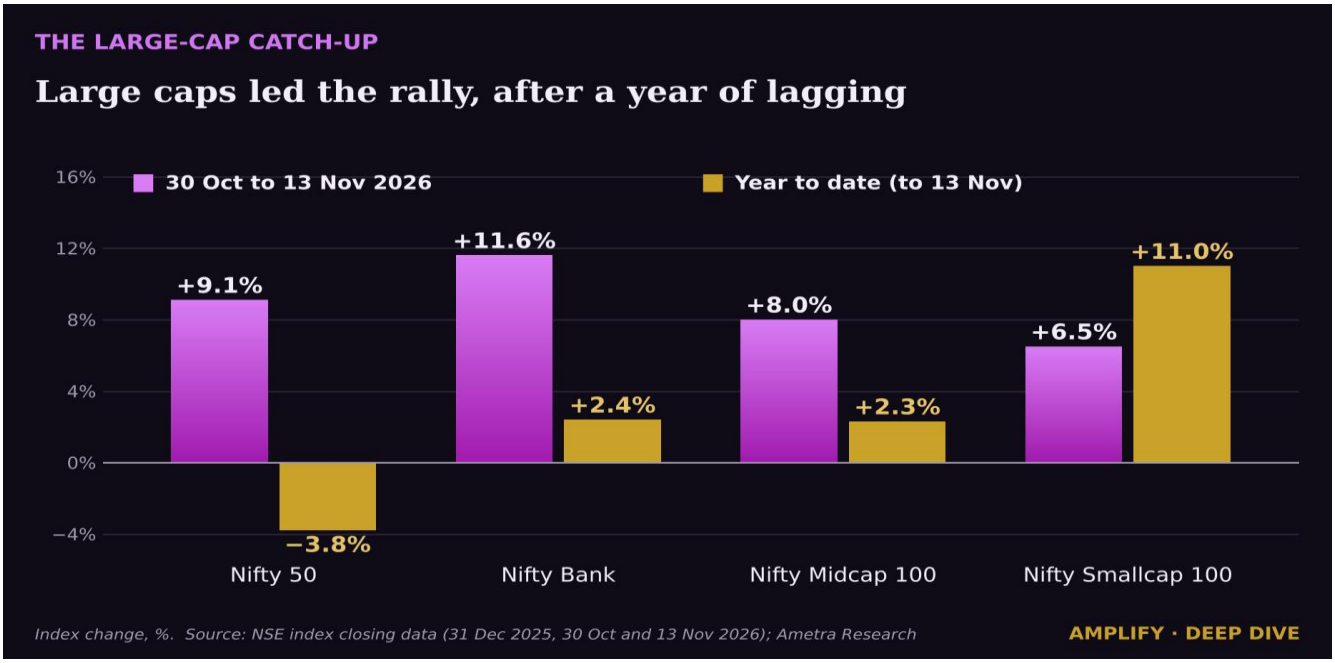
Flow Snapshot (as of 13 November 2026)

Indicator	Reading	Read-through
Nifty 50	25,144.30; +9.1% since 30 Oct	Intraday 25,424, last seen 27 Feb; still −3.8% for 2026
Nifty Bank	61,034.10; +11.6% since 30 Oct	Banks led the rebound, ahead of the Nifty
Nifty Smallcap 100	19,656.45; +6.5% since 30 Oct	Lagged the rally, but still +11.0% for 2026
FII cash, 2–13 Nov (exchange provisional)	+₹79,303 crore	After −₹45,162 crore in October
FPI equity flows, 2–9 Nov (NSDL)	+₹53,739 crore	Largest monthly inflow since September 2024
DII cash, 2–13 Nov (exchange provisional)	−₹48,390 crore	Domestic institutions sold into the rally
FII index-futures shorts	1,18,466 contracts, from 2,75,190 on 30 Oct	57% covered; longs added only 28,109
FII long-short ratio, index futures	0.53, from 0.09 on 1 Oct	Still net short

Brent crude	Below US$90 on 10 Nov, from US$117 in late Oct	First time under US$90 since August
India VIX	15.50; peaked at 17.56 on 11 Nov	Rose with the market into the squeeze; now easing

1. The Rally – A Catch-Up Dressed as a Frenzy

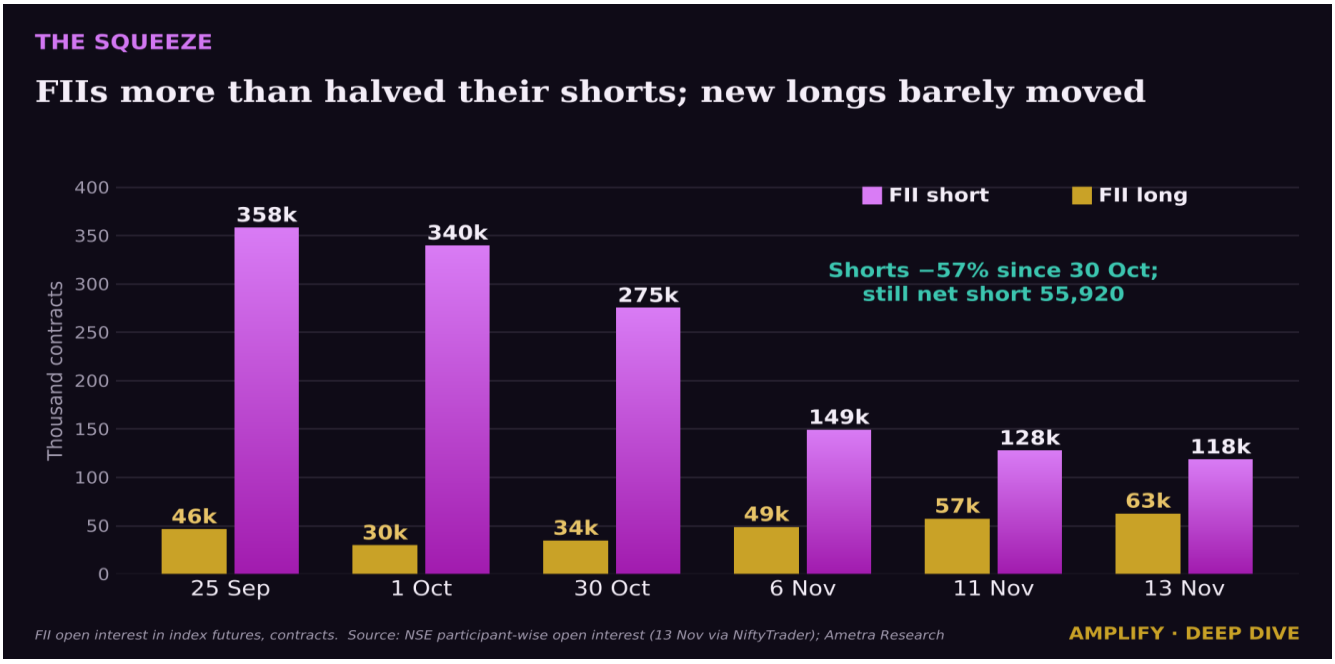
Start with the shape of the move. The Nifty 50 had closed at 22,600 on 23 October and was down 11.8% for the year on 30 October, while the Nifty Small-cap 100 was up 4.2%. Then came the turn: the Nifty gained 8.6% from 30 October to 6 November, closing above 25,000 at 25,030.35; only four of its 50 stocks fell. Financials and index heavyweights did the lifting; weekly basis had Shriram Finance up 16.8%, Bajaj Finance 15.8%, Mahindra & Mahindra 15.7%, HDFC Bank 13.8% and Reliance 13.3%. In the same week the Mid-cap 100 rose 5.8% and the Small-cap 100 only 2.8%.



So 'large-cap frenzy' is half right. Large caps led, decisively, but from a position of a year's underperformance: even after the rally the Nifty is 3.8% below where it began 2026, while small caps are up 11.0%. And the baton is already moving. From 6 to 13 November the Small-cap 100 rose 3.6% against the Nifty's 0.5%. Two explanations are on offer for the large-cap leg. One is mechanical: FIIs buying back index futures they had sold short. The other is fundamental: foreign money returning to Indian shares. The difference matters, because the first ends when the shorts run out and the second does not.

2. The Squeeze – How the Shorts Were Cleared

NSE's participant-wise open interest data shows how lopsided the starting point was. On 25 September, FIIs held 3,58,306 short index-futures contracts against 46,305 long. On 30 October they were still short 2,75,190. By 13 November that had fallen to 1,18,466, a cut of 57% in ten sessions, while their longs rose by just 28,109 contracts to 62,546. About 85% of the fall in FIIs' net short position came from covering, not from fresh bullish bets. FIIs net bought ₹27,612.62 crore of index futures in seven sessions, the most in two years.



The day-by-day pattern carries the signature of a squeeze. On 3 November, FIIs bought ₹4,711.31 crore of index futures, their biggest day since 17 July, while open interest in Nifty futures fell 13.3%: rising prices with falling open interest is what covering looks like.

India VIX, which usually falls in a rally, rose from 15.30 to 17.56, consistent with a market being forced higher rather than coaxed. On the other side of the trade were retail clients, whose net long position in index futures shrank from 1,86,988 contracts to 62,576.

One caveat, stated plainly: a short in index futures is not always a bet against India. Much of it hedges FIIs' cash holdings. Lifting a hedge is a quieter vote of confidence, but it is a one-off; once it is lifted, it cannot be lifted again.

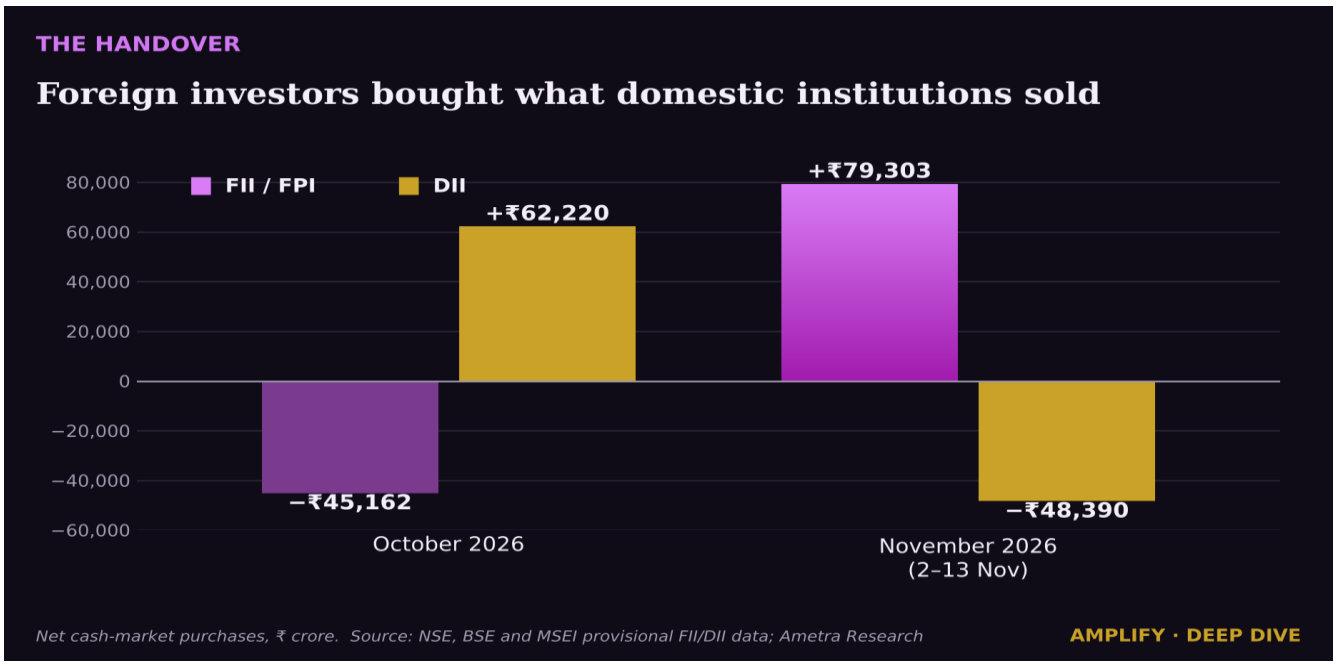
3. The Money – The Cash Buying is Bigger Than the Squeeze

If covering were the whole story, cash-market flows would be modest. They are not. FIIs' ₹65,736 crore of cash buying from 2 to 11 November is about 2.4 times their index-futures buying. Depository data put FPI equity purchases at ₹53,739 crore for 2–9 November, the largest monthly inflow since September 2024, after outflows of ₹35,861 crore in September and ₹34,843 crore in October.

Jefferies counts US$8.2bn of net inflows since mid-October, US$5.8bn of it in six sessions to 6 November. FPIs were buying financial services, IT, automobiles and telecom.

Scale matters, though. Jefferies estimates FPIs pulled out US$31bn in the first ten months of 2026 and about US$61bn between September 2024 and October 2026. The November buying has reversed roughly a quarter of this year's selling, not the cycle's. And somebody sold it. Domestic institutions, which bought ₹62,220 crore in October, sold ₹48,390 crore from 2 to 13 November.

AMFI data shows equity mutual fund inflows fell 13.9% in October to ₹32,994 crore, with SIPs at ₹32,160 crore. Within that, large-cap fund inflows rose 20.1% while small-cap inflows fell 29.1%, a turn from the first large-cap outflow in three years that we examined in our August Large-Cap Outflows note.



4. Why Now – Three Pushes, Two of Them From Abroad

The first push came from the US. After the 3 November midterms gave Democrats control of both chambers of Congress, the result added to concerns about tighter scrutiny of AI and data-centre spending, Reuters reported. The Nasdaq Composite fell 5.5% on 5 November; Korea's KOSPI lost more than a tenth of its value in the week, and Taiwan's Taiex 12.2%. India, with little direct exposure to AI infrastructure, became the place to park the proceeds. "The sudden change in FPI stance was triggered by the AI sell-off in the US," said Geojit's V K Vijayakumar. This extends what our October Korea note called the end of the easy AI trade.

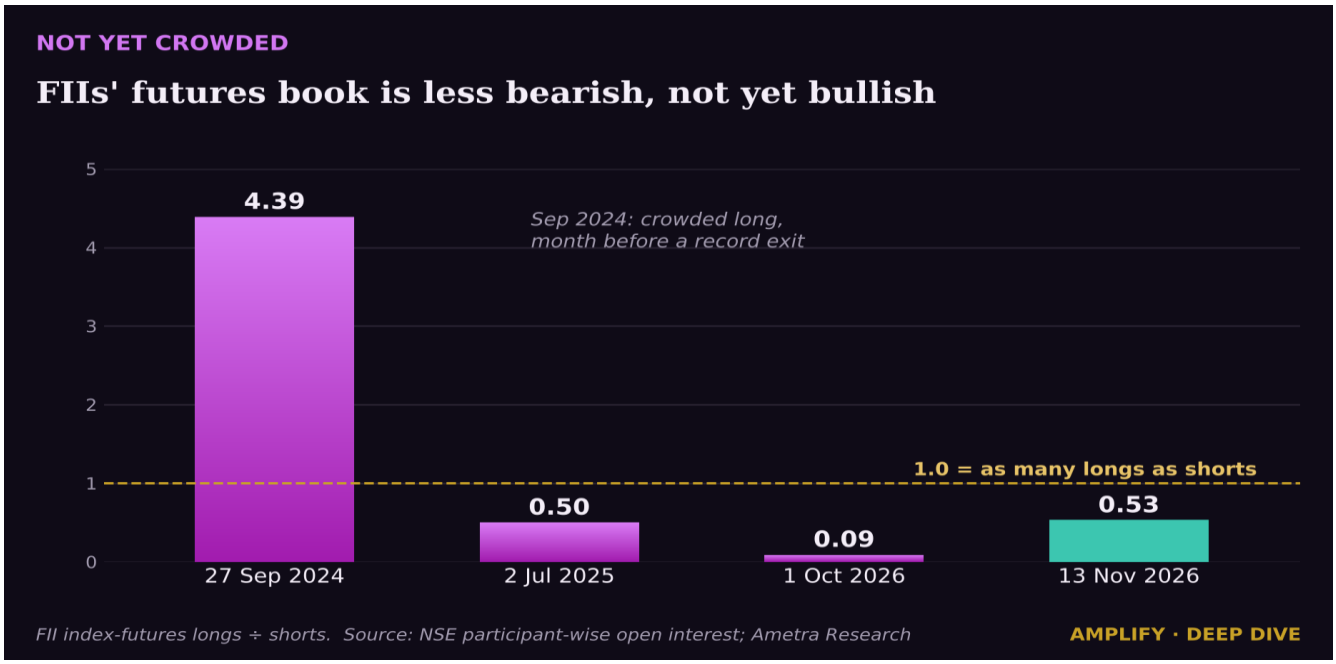
The second push was crude. Brent fell from a late-October peak of about US$117 a barrel to below US$90 on 10 November, the first time since August, after President Trump said the war with Iran was 'effectively over'. For an importer like India, as our Crude Mirage note argued, that is a direct gain to the trade balance, inflation and the rupee, which firmed from ₹95.26 per dollar on 29 October to ₹93.69 on 11 November, adding a currency gain for foreign holders.

The third push was price. NSE's data put the Nifty's trailing P/E at 19.3 on 30 October, against 22.75 at the end of 2025. Note what is missing: none of the three is a change in India's long-term story. Two of them are about somewhere else.

5. We Have Seen This Film – Rotation Money Leaves the Way It Came

The closest precedent is two years old. In September 2024 FPIs bought ₹57,724 crore of Indian shares, a nine-month high, and on 27 September their long-short ratio in index futures stood at 4.39, a crowded long.

The next month, as China's stimulus pulled money north, they sold a record ₹94,017 crore. That began the US$61bn exit that November's buying is now reversing in part. Money that arrives because something happened elsewhere can leave for the same reason.



Squeezes also have a shelf life. On 17 July 2026 FIIs bought ₹5,392.98 crore of index futures in a single day; over the next five sessions the Nifty fell 2.3%. With more than half the October shorts already covered, Systematix's Dharmesh Bhatt told Business Standard on 12 November that the squeeze may be 'approaching exhaustion'. These precedents are context, not a trading signal, but they make one point clearly: the mechanical buyer is largely behind us.

6. The Counter-Case – Why This Could Become a Real Return

Intellectual honesty requires the other side, and it is a strong one. Foreigners have rarely owned less of India. NSE's ownership tracker puts the FPI share of NSE-listed companies at 15.1% in the June 2026 quarter, the lowest in 69 quarters, and their share of the Nifty 50 at 21.1%, a 14.5-year low. Jefferies finds 61% of 70 large active emerging-market funds underweight India as of September, with an average overweight of just 0.1% against a ten-year average of 2.2%. A 1% rise in India's active weight could bring roughly US$12bn. That is more than all the buying seen since mid-October.

Positioning leaves room too. A long-short ratio of 0.53 is far from 2024's 4.39; FIIs are still net short 55,920 contracts, and a flip to net long would add buying, not remove it. Valuations help: the Nifty 100 is trading at about 18.6 times forward earnings, some 5% below its ten-year average. There is also a policy option. Jefferies has proposed cutting capital gains tax for FPIs, currently 12.5% long-term and 20% short-term, or computing their gains in dollars. Citi has raised its end-2027 Nifty target to 28,000, from 26,000.

7. The India Angle – Rented, Not Owned, Until Proven Otherwise

What would keep the money is mostly domestic, and the near-term signals are mixed. The RBI raised the repo rate by 25 bps to 5.50% on 7 October and moved its stance to 'calibrated tightening'. October CPI, released on 12 November, came in at 6.09%, above the 6% upper limit of the RBI's band, and ICRA anticipates another hike in December. Abroad, the US 10-year yield is back at 5% and the dollar index at a 52-week high, Bhatt noted; Wall Street fell on 10 November on hot US inflation data. As our Inflation and Rates Peak note argued, rates are close to their peak but not yet there.

For investors, the rally so far has rewarded what foreigners own and had sold most: banks, financials and the largest index names. The second leg looks different. Small caps, at 35.0 times trailing earnings on NSE's data against 20.5 for the Nifty, are now catching up on domestic and retail money: on 11 November the Small-cap 100 rose 1.6%, nearly twice the Nifty's 0.8%. We have seen that pattern before, in our September newsletter's 'Strong Indices, Weak Breadth'. The foreign bid is for India's large, liquid core; the froth is not where it is landing.

Ametra's Read

This is a short squeeze that turned into a genuine but tactical return of foreign money. Covering lit the fuse; rotation from an AI sell-off and a crude collapse supplied the larger fuel. It is not yet the strategic re-allocation that a 17-year low in foreign ownership would allow. The job is to own the large-cap catch-up without paying squeeze prices for it. Our stance:

— Own large caps for the catch-up, not the frenzy: The Nifty is still 3.8% down for 2026 at about 20.5 times trailing earnings, against 35.0 for small caps. The relative case for large caps is intact even if the pace is not. Add on pullbacks rather than chase an index that rose 9.1% in ten sessions.

— Treat the squeeze as spent: With 57% of October's FII shorts covered and ₹27,612 crore of futures already bought back, the mechanical buyer is largely done. July's squeeze gave back 2.3% within a week.

— Follow the cash, and the flip: A true return shows up in two places: FPI buying that persists through December in NSDL data, and FIIs turning net long index futures, a long-short ratio above 1.0. Until both happen, treat the flow as rented.

— Favour the deep, liquid core foreigners buy first: Banks and large financials led this rally, with Nifty Bank up 11.6%, and Jefferies calls large caps 'the cleaner play' on an FPI return. With FPI ownership at a 17-year low, that is where a lasting return would land first. Stay selective on quality and balance sheets.

— Watch the tripwires: October CPI at 6.09% and the RBI's December policy; Brent back above US$100; the US 10-year above 5% and the dollar; weekly NSDL flows and the FII long-short ratio; any move on FPI capital-gains tax; and money rotating back to Korea and Taiwan if the AI trade recovers.

The bottom line: the shorts have been paid; the question now is whether the buyers stay. Rent the rally in large caps, and wait for foreign money to sign the lease before paying for ownership.

Positioning Map

Stance	Where	Rationale
Favour	Large caps over small caps	Nifty ~20.5x vs Small-cap 100 ~35.0x; still −3.8% for 2026
Selective	Large banks and financials	Led the rebound; first in line if the FPI return sticks
Add on confirmation	Broader FPI-sensitive large caps	When FIIs flip net long and NSDL inflows persist into December

Fade	Chasing the squeeze	Covering largely done; July's squeeze reversed within a week
Caution	The small-cap catch-up	Domestic and retail money, at a wide valuation premium
Tail hedge	A rates and crude relapse	CPI at 6.09%, a December hike, Brent back above US$100
Watch	NSDL flows, long-short ratio, FPI tax	The signals that turn rented money into owned money

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